VARIABLE ANNUITIES

Variable annuities have become part of the retirement and investment plans of many Americans. Before you buy a variable annuity, you should know some of the basics - and be prepared to ask your insurance agent, broker, financial planner, or other financial professional lots of questions about whether a variable annuity is right for you.

This is a general description of variable annuities - what they are, how they work, and the charges you will pay. Before buying any general annuity, however, you should find out about the particular annuity you are considering. Request a prospectus from the insurance company or from your financial professional, and read it carefully. The prospectus contains important information about the annuity contract, including fees and charges, investment options, death benefits, and annuity payout options. You should compare the benefits and costs of the annuity to other variable annuities and to other types of investments, such as mutual funds.

WHAT IS A VARIABLE ANNUITY?

A variable annuity is a contract between you and an insurance company, under which the insurer agrees to make periodic payments to you, beginning either immediately or at some future date. You purchase a variable annuity contract by making either a single purchase payment or a series of purchase payments.

A variable annuity offers a range of investment options. The value of your investment as a variable annuity owner will vary depending on the performance of the investment option you choose. The investment option for a variable annuity is typically a mutual fund that invests in stocks, bonds, money market instruments, or some combination of the three.

Although variable annuities are typically invested in mutual funds, variable annuities differ from mutual funds in several important ways:

- Variable annuities let you receive *periodic payments* for the rest of your life (or the life of your spouse or any other person you designate). This feature offers protection against the possibility that, after you retire, you will outlive your assets.

- Variable annuities have a *death benefit.* If you die before the insurer has started making payment to you, your beneficiary is guaranteed to receive a specific amount - typically at least the amount of your purchase payments. Your beneficiary will get a benefit from this feature if, at the time of your death, your account value is less than the guaranteed amount.

- Variable annuities are tax *deferred.* That means you pay no taxes on the income and investment gains from your annuity until you withdraw your money. You may also transfer your money from one investment option to another within a variable annuity without paying tax at the time of the transfer. When you take your money out of a variable annuity, however, you will be taxed on the earnings at ordinary income tax rates rather than the lower capital gains rates. In general, the benefits of tax deferral will outweigh the costs of a variable annuity only if you hold on to it as a long- term investment to meet retirement and other long-range goals.

Other investment vehicles, such as IRAs and employer-sponsored 401(k) plans, also may provide you with tax-deferred growth and other tax advantages. For most investors, it will be advantageous to make the maximum allowable contributions to IRAs and 401(k) plans before investing in a variable annuity.

In addition, if you are investing in a variable annuity through a tax- advantaged retirement plan (such as a 401(k) or IRA), you will get *no additional tax advantage* from the variable annuity. Under these circumstances, consider buying a variable annuity only if it makes sense because of the annuity's other features, such as a lifetime income payment and death benefit protection. The tax rules that apply to variable annuities can be complicated - before investing, you may want to consult a tax adviser about the tax consequences to you of investing in a variable annuity.

C A U T I O N

Remember: Variable annuities are designed to be long-term investments, to meet retirement and other long-range goals. Variable annuities are not suitable for meeting short-term goals because of substantial taxes and insurance company charges that may apply if you withdraw your money early. Variable annuities also involve investment risks, just as mutual funds do.

HOW VARIABLE ANNUITIES WORK

A variable annuity has two phases: an *accumulation phase* and a *payout phase.*

During the *accumulation* phase, you make purchase payments, which you can allocate to a number of investment options. For example, you could designate 40% of your purchase payments to a bond fund, 40% to a U.S. stock fund, and 20% to an international stock fund. The money you have allocated to each fund investment option will increase or decrease over time, depending on the fund's performance. In addition, variable annuities often allow you to allocate part of your purchase payments to a fixed account. A fixed account, unlike a mutual fund, pays a fixed rate of interest. The insurance company may reset this interest rate periodically, but it will usually provide a guaranteed minimum (e.g., 3% per year).

During the *accumulation* phase, you can typically transfer your money from one investment option to another without paying taxes on your investment income and gains, although the insurance company may charge you for transfers. However, if you withdraw money from your account during the early years of the accumulation phase, you may have to pay "surrender charges". In addition, you may have to pay a 10% federal tax penalty if you withdraw money before the age of 59 1/2.

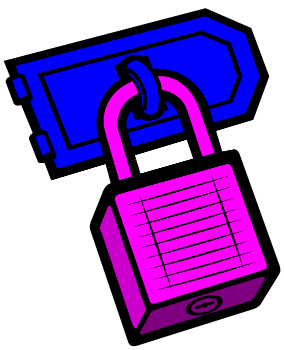
At the beginning of the payout *phase,* you may receive your purchase payments plus investment income and gains (if any) as a lump sum payment, or you may choose to receive them as a stream of payments at regular intervals (generally monthly). The amount of each periodic payment will depend, in part, on the time period that you select for receiving payments. Be aware that some annuities do not allow you to withdraw money from your account once you have started receiving regular annuity payments.

In addition, some annuity contracts are structured as *immediate annuities,* which means that there is no accumulation phase and you will start receiving annuity payments right after you purchase the annuity

THE DEATH BENEFIT AND OTHER FEATURES

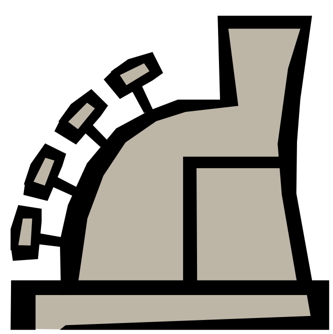
A common feature of variable annuities is the *death benefit.* . If you die, a person you select as beneficiary, such your spouse or child, will receive the greater of: 1 - all the money in your account, or 2 - some guaranteed minimum (such as all purchase payments minus prior withdrawals)

Some variable annuities allow you to choose a *"stepped-up" death benefit.* Under this feature, your guaranteed minimum death benefit may be based on a greater amount than purchase payments minus withdrawals. For example, the guaranteed minimum might be your account value as of a specified date, which may be greater than purchase payments minus withdrawals if the underlying investment options have performed well. The purpose of a stepped-up death benefit is to "lock in" your investment performance and prevent later decline in the value of your account. This feature carries a charge, however, which will reduce your account value.



Variable annuities sometimes offer other optional features, which also have extra charges. One common feature, the *guaranteed minimum income benefit,* guarantees a particular minimum level of annuity payments, even if you do not have enough money in your account (perhaps because of investment losses) to support that level of payments. Other features may include *long-term care insurance,* which pays for home health care or nursing home care if you do become seriously ill.

You may want to consider the financial strength of the insurance company that sponsors any variable annuity you are considering to buy. This can affect the company's ability to pay any benefits that are greater than the value of your account in mutual fund investment options, such as a death benefit, guaranteed minimum income benefit, long-term care benefit, or amounts you have allocated to a fixed account investment option



VARIABLE ANNUITY CHARGES

You will pay several charges when you invest in a variable annuity. Be sure you understand all the charges before you invest. *These charges will reduce the value of your account and the return on your investment.* Often, they will include the following:

- Surrender charges
- Mortality and expense risk charge ~ Administrative fees
- Underlying Fund Expenses
- Fees and charges for other features

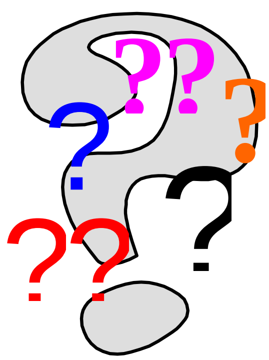
TAX-FREE "1035" EXCHANGES

If you are thinking about a 1035 exchange, you should compare both annuities carefully. Unless you plan to hold the new annuity for a significant amount of time, you may be better off keeping the old annuity because the new annuity typically will impose a new surrender charge period. Also, if you decide to do a 1035 exchange, you should talk to your financial professional or tax adviser to make sure the exchange will be tax-free. If you surrender the old annuity for cash and then buy a new annuity, you will have to pay tax on the surrender.

BONUS CREDITS

Some insurance companies are now offering variable annuity contracts with "bonus credit" features. These contracts promise to add a bonus to your contract value on a specified percentage (typically ranging from 1% to 5%) of purchase payments. There is a downside, however - higher expenses that can outweigh the benefit of the credit offered. Frequently, insurers will charge for your bonus credits in one or more of the following ways:

- Higher surrender charges
- Longer surrender periods.
- Higher mortality and expense risk charges



ASK QUESTIONS BEFORE YOU INVEST

Will you use the variable annuity primarily to save for retirement or a similar long-term goal?

Are you investing in a variable annuity through a retirement plan or IRA (which would mean that you are not receiving any additional tax-deferral benefit from the variable annuity)?

Are you willing to take the risk that your account value may decrease if the underlying mutual fund investment options perform badly?

Do you understand the features of the variable annuity?

Do you understand all the fees and expenses that the variable annuity charges?

Do you intend to remain in the variable annuity long enough to avoid paying any surrender charges if you have to withdraw money?

If a variable annuity offers a bonus credit, will the bonus outweigh any higher fees and charges that the product may charge?

Are there features of the variable annuity, such as long term care insurance, that you could purchase more cheaply separately?

If you are exchanging one annuity for another one, do the benefits of the exchange outweigh the costs, such as any surrender charges you will have to pay if you withdraw your money before the end of the surrender charge period for the new annuity?

If you wish to file a complaint concerning an annuity, please contact the Insurance Division at 615-741-2218 or on the internet at state.tn.us/commerce/insurance.

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